Fife College

Annual Report to the Board and the Auditor General for Scotland Period ended 31 July 2015

December 2015

Executive Summary

Fife College (the College) have had a challenging year with a focus on further implementing the merger and embedding a new Learning and Teaching Strategy. The cultural developments have coincided with a period of change in the financial reporting environment which required the College to operating within Central Government budgeting requirements. The College have met the expenditure limit placed under the new budgeting requirements and reported a small surplus in the financial year. There are also increasing requirements around the governance processes in place arising from the move to Central Government. The College undertook an exercise to self-evaluate against the Scottish Funding Council Code of Good Governance and found no areas of non compliance.

Financial statements

- We have provided an unqualified opinion on both the financial statements of the College and on the regularity of transactions undertaken for the 2014-15 financial period.
- The 2014-15 financial statements cover a 16 month period from 1 April 2014 to 31 July 2015
- The draft financial statements and supporting working papers were of a good standard, and there were only minor audit adjustments required following our audit.
- We operate a risk based approach when planning our audit work and focus our audit effort on the areas with the highest risk. As part of our plan we identified two presumed significant risks of management override of controls and the risk of fraudulent transactions within tuition fee revenues. We also identified reasonably possible risks of the understatement of operating expenses and employee remuneration. We have carried out a review of the control environment for each of the systems and substantively tested the balances in the accounts with no issues arising from this work.
- We applied overall materiality of £1.34 million to the financial statements.
- We have reviewed key judgements made by management and disclosure of accounting policies and found all policies to be in line with SORP requirements.

Governance

- The College reported through their Corporate Governance Statement that there were adequate governance processes in place during 2014-15. Our audit work supports this assessment.
- The College has conducted a self-evaluation against the Code of Good Governance issued by the Scottish funding Council and has confirmed compliance with only minor improvements identified.
- 2014-15 was the first full year the governance structures for the merged College have been in place. The College conducted a review of the structures, which were implemented in October 2013, and have made minor revisions to improve the governance arrangements.
- Risk management policies were in place in 2014-15 and were deemed to be reasonable and appropriate by the Audit and Risk Committee. However, in the pursuit of moving towards best practice the College held a development day with the aim of improving the risk management arrangements. This resulted in a revision to the risk register at a strategic level.
- Anti-fraud and corruption measures are in place across the College. It was confirmed that there were no instances of fraud or whistleblowing tips reported to the College in year.

Best value, use of resources and performance

- The College's Strategic Plan was issued in October 2013 and focused on a number of high level outcomes which are aligned to the national framework.
- The College reported a small surplus of £0.75 million in the 16 month period to 31 July 2015.
- The College continue to operate with a positives reserves position of £46.98 million, despite an increasing pension liability of £14.82 million.
- The College achieved 99% of their WSUMs target which marks an improvement of 0.7% compared to 2014-15
- The College have reported improvement in 75% of their performance indicators.

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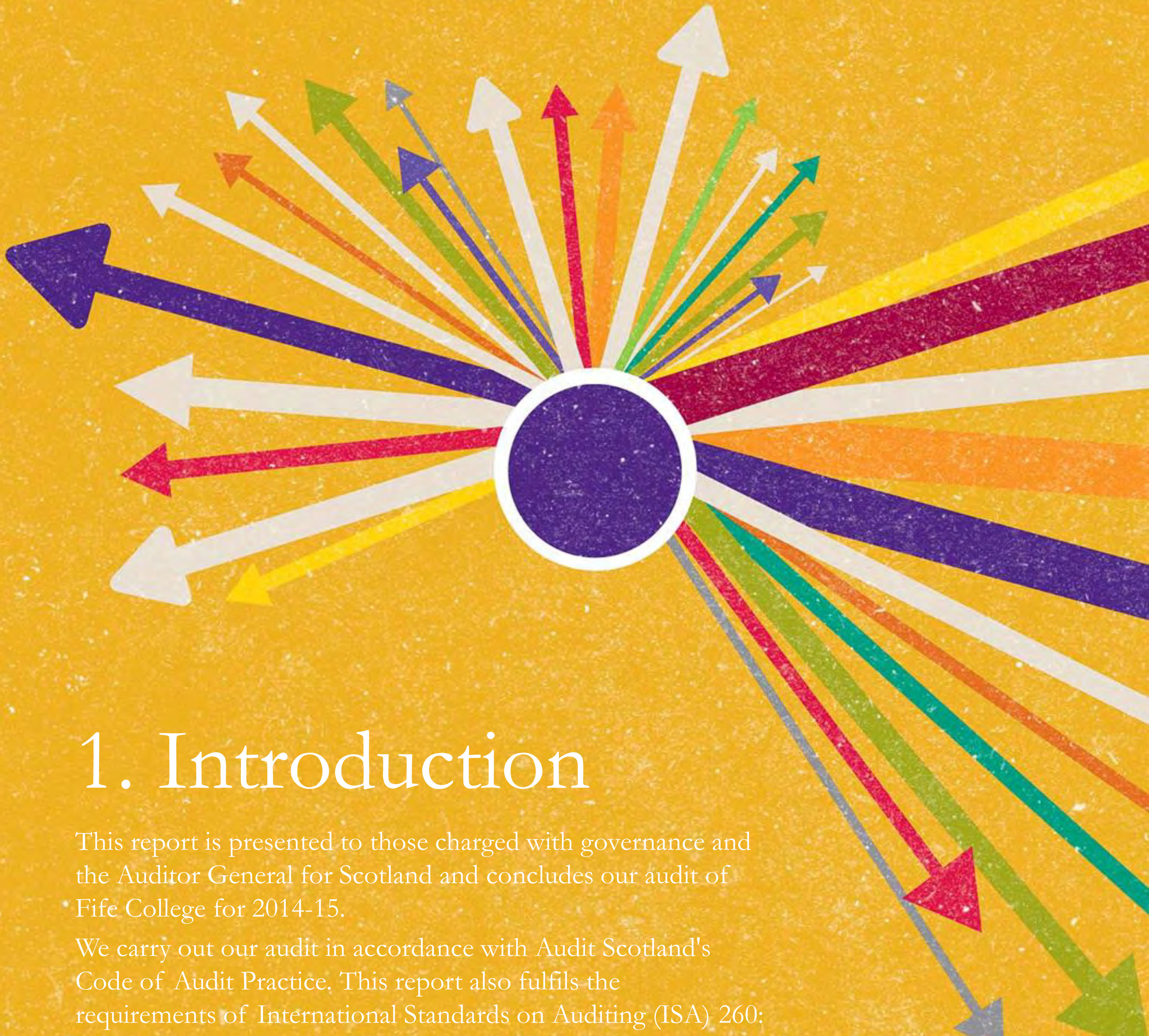


1. Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of Fife College for 2014-15.

We carry out our audit in accordance with Audit Scotland's Code of Audit Practice. This report also fulfils the requirements of International Standards on Auditing (ISA) 260: Communication with those charged with governance.

Introduction

Purpose of this report

The Auditor General for Scotland appointed Grant Thornton UK LLP as auditor of Fife College ('the College') for the 5 year period 2011-12 to 2015-16. This appointment is made under the Public Finance and Accountability (Scotland) Act 2000.

Our annual audit report is addressed to those charged with governance at the College, and the Auditor General for Scotland. The report summarises our opinion and conclusions on significant issues arising from our audit. The scope of our audit work was set out in our Audit Plan, which was presented to the Audit and Risk Committee on 28 May 2015.

The College's responsibilities

It is the responsibility of the College and the Accountable Officer to prepare the financial statements in accordance with the Statement of Recommended Practice: accounting for further and higher education (the SORP) and the Accounts Direction issued by the Scottish Funding Council (the Accounts Direction).

This means the College must:

- prepare financial statements which give a true and fair view of the financial position of the College and its income and expenditure for the period to 31 July 2015
- maintain proper accounting records which are up to date
- take steps to prevent and detect fraud and other irregularities.

The College is also responsible for establishing proper arrangements to ensure that:

- public business is conducted in accordance with the law and proper standards
- public money is safeguarded and properly accounted for
- economy, efficiency, effectiveness and Best Value is achieved in the use of resources.

Our responsibilities

It is a condition of our appointment that we meet the requirements of the Code of Audit Practice ('the Code') which was published in May 2011, and is approved by the Accounts Commission and the Auditor General for Scotland.

The Code highlights the special accountabilities that are attached to the conduct of public business and the use of public money. This means that audits in the public sector audit must be planned and undertaken from a wider perspective than the private sector. Our responsibilities are outlined in **Figure 1**.

We are required to provide an opinion on the financial statements and corporate governance statement. Under the Code we are also required to review and report on the governance arrangements, Best Value, use of resources, and performance.

Under the requirements of the International Standard of Auditing (UK and Ireland) ('ISA') 260: Communication with those charged with governance, we are required to communicate audit matters arising from the audit of the financial statements to those charged with governance. This annual report to the College, together with previous reports to the Audit and Risk Committee throughout the year, discharges our ISA 260 commitments.

Acknowledgements

We would like to take this opportunity to record our thanks for the assistance provided by the Vice Principal Finance and Planning, the Head of Finance and the finance team during the course of our work.

Figure 1: Our responsibilities under the Code of Audit Practice

Financial Statements

Provide an opinion on:

- whether the financial statements provide a true and fair view of the financial position of the College
- whether the financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of expenditure and income

Corporate governance

Review and report on the College's corporate governance arrangements as they relate to:

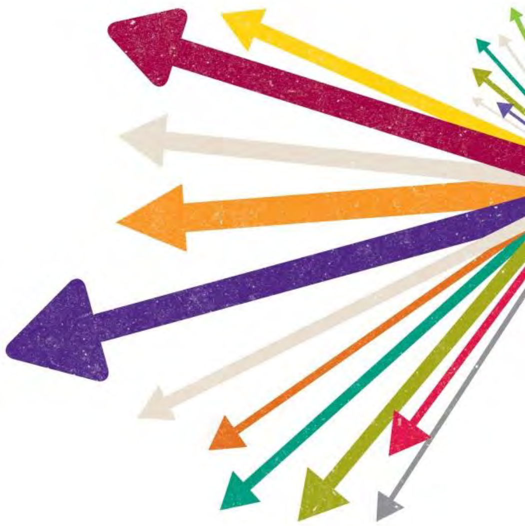
- the College's corporate governance and systems of internal control, including reporting arrangements
- the prevention and detection of fraud and irregularity
- standards of conduct and arrangements for the prevention and detection of corruption

Best Value and performance

- The Public Finance and Accountability (Scotland) Act 2000 gives the Auditor General the right to initiate examinations into the economy, efficiency and effectiveness with which the College and other public bodies have used their resources to discharge their functions.
- In accordance with guidance issued by Audit Scotland, the Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value.
- In accordance with guidance issued by Audit Scotland, auditors may be requested to participate in a performance audit, an examination of the implications of a particular topic for the College at a local level or a review of the College's response to national recommendations. In 2014-15 we have completed a baseline assessment of the financial capacity at the College

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.



2. Financial statements

Financial Statements

Introduction

Within this section of the report, we present our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated May 2015.

Our Review of the Financial Statements

The draft financial statements were of good quality and we identified no significant errors or misstatements.

As part of our work on the financial statements we are required to review the narrative elements of the financial statements (including the Operating and Financial Review, the Statement of Board of Governor's Responsibilities and the Corporate Governance Statement). We review the narrative elements of the financial statements for compliance with required SORP and Accounts Direction disclosures, for consistency with other areas of the financial statements and our knowledge of the client.

We note there have been significant changes in the narrative reporting requirements across the College sector, including the requirement to include a remuneration report as part of the financial statements. The College have taken action to ensure compliance with the revised Accounts Direction. We note that there is further opportunity improve the narrative in the Operating and Financial Review in order to meet best practice, including an overview of the College strategy and a wider range of performance information.

See action plan point 1

We have reviewed the narrative commentary against the requirements of the SORP which resulted in only minor disclosure adjustments being made.

Financial Statements Opinion

Our audit identified total proposed adjustments of £0.09 million to the financial statements relating to a voluntary severance payment which should have been included as part of 2013-14 staff costs. The College have not adjusted for this, due to the balance being below materiality and it having no on-going impact. We have included full details at **Appendix A**.

Our audit also identified two disclosure issues relating to the presentation of group accounts and the disclosure of prior period adjustments. Both issues have been adjusted in the revised financial statements as outlined at **Appendix B**.

We have provided an unqualified opinion on the financial statements of the College.

Regularity

We did not identify any instances of irregular expenditure or non-compliance with laws and regulations.

A summary of our audit plan relating to financial statements

A reminder of our approach

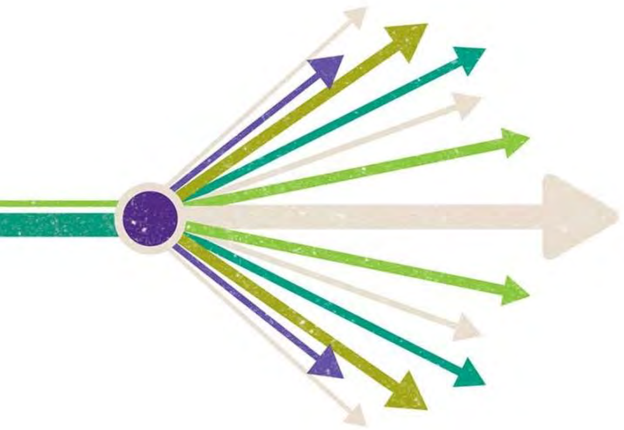
Scope of the Audit

We operate a risk based audit approach. The starting point for our audit was to consider the inherent risks to the College and how these may result in a material misstatement in the accounts. We identified two significant risks and two reasonably possible risks which have been outlined at **Table 1** and **Table 2.** Systems linked to those areas where we had identified a risk were subject to increased audit focus including consideration of the control environment, in particular whether the systems were operating effectively.

We conduct a range of audit procedures across all balances above performance materiality, including analytical review, agreement to third party confirmations and sample testing. Throughout the audit we have tailored the level of procedures to take account of the level of assessed inherent risk.

We also consider all disclosures in the financial statements and ensure compliance with the SORP, the Accounts Direction and whether disclosures are consistent with the information gathered from our audit work.

We did not identify any new areas of risk or change our approach over the course of the audit.



Application of Materiality

We outlined in our audit plan that we had set materiality at the College in line with ISA 320.

The primary focus of the College is to provide educational services through the use of public funds. We therefore set the overall materiality using gross expenditure as a benchmark. We established planning materiality at 2.0% of the 2013-14 gross expenditure (adjusted to reflect the change in period length from 8 months to 16 months), which resulted in overall materiality of £1.49 million.

In addition to overall materiality we also establish a level for performance materiality, which as defined by ISA 320 is the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

We set our performance materiality at 75% of materiality which gave a measure of £1.12 million for the College.

We reviewed the levels of materiality at the fieldwork stage to establish whether this would have a significant impact on the materiality to be applied. As a result of this exercise the levels of materiality were revised from the planning materiality outlined due to movements in the benchmark figure. The revised overall materiality level applied is £1.34 million, which results in performance materiality of £1.01 million.

In addition to the guidance on materiality ISA 450 requires the auditor to accumulate and report misstatements identified during the audit, other than those that are clearly trivial. For the purposes of this audit we have set trivial at £0.06 million.

Items which were considered material by nature (e.g. cash and remuneration report disclosures) were subject to a higher degree of audit scrutiny.

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Table 1: Significant Risks identified at the planning stage

	Risks identified in our audit plan	Work completed	Assurances and issues arising
1	Management override of controls Under ISA (UK&I) 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	• Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.
2	The revenue cycle includes fraudulent transactions Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the College, we determined the risk of fraud arising from revenue recognition is present for Tuition Fee Revenue but can be rebutted for Grant -in-Aid allocations and Other Income. The reason behind our rebuttal of the risk is • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of further education bodies, including the College, mean that all forms of fraud are seen as unacceptable. The most significant area of revenues was grant funding totalling £51.20 million (75% of revenues). We have substantively agreed grant funding to award letters. We conducted statistical sampling of tuition fee revenues, resulting in a sample size of 29 transactions for testing.	Our work confirmed that revenue had been recognised appropriately in the financial statements.

Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty

(ISA (UK&I) 315).

Audit findings against reasonably possibly risks

Reasonably possible risks are, in the auditor's judgement, other risk areas which they have identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement is lower than that for a Significant Risk, and they are not considered to be areas that are highly judgemental, or unusual in relation to the day to day activities of the business.

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Table 2: Reasonably possible risks identified at the planning stage

Transaction cycle	Description of risk	Work completed	Assurances gained and issues arising
Operating Expenses	Operating Expenses/ Creditors are understated The College incur expenditure to provide educational services within the Fife area. In 2014-15 other operating expenses were £16.14 million. From 1 April 2014 the College became a body under the central government budgeting boundary. As a central government body there is increased pressure to report a balanced budget for the financial year.	We gained assurance over the risk through: • Review and walkthrough of the processes and controls in operation over purchase ordering, general payment and recording of expenditure. • Reconciliation of the creditors subsystem to the general ledger and financial statements. • Statistical sample of 10 post year end transactions for unrecorded liabilities.	We gained sufficient assurance over the operating expenditure control environment. Our audit work did not identify any misstatement of operating expenses from the testing carried out.
Employee remuneration	Employee remuneration accruals understated Employee costs accounted for 62% of expenditure in 2014-15. There are a large number of transactions processed throughout the year and the College relies on numerous controls including monthly reconciliations and segregated duties when compiling payroll batches to ensure that the employee costs are recorded correctly in the financial statements.	We gained assurance over the risk through: • Review and walkthrough of the processes and controls in operation for payment of staff. • Substantive testing of employee remuneration accruals at the year end • Judgemental sample testing of 30 staff members to HR system, recalculation of employer costs • Analytically review payroll expenses in comparison to expectations and investigate any significant variances • Review of the relevant disclosures relating to staff costs within the financial statements	We gained sufficient assurance over payroll processes from our review of the control environment. Our testing did not identify any material misstatements in employee remuneration.

Accounting estimates and significant judgements

Assessment

- Marginal accounting policy which could potentially attract attention from stakeholders
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the College's financial statements.

Table 3: Accounting estimates and significant judgements

Accounting area	Summary of policy	Our comments	Our assessment
Revenue recognition	• **Grants receivable:** Grant in Aid and European Funding received is recognised in the period it is receivable. • **Other Income:** Income from contracts and for services rendered are included in proportion to the extent of completion of the contract or service concerned.	• The revenue recognition policies are appropriate under the SORP. • The disclosure in the draft accounts was found to be reasonable and in line with prior years	
Property, Plant and Equipment	• The fair value of all land and buildings is assessed by performing a full valuation at least every five years, with an annual indexation review. • Buildings are depreciated on a straight line basis over their expected useful lives between 10 – 50 years. Other assets have a range of useful lives from 4- 10 years. • Additions to assets over £10,000 are capitalised.	• The revaluation programme is deemed to be reasonable. The current year indexation was carried out by Hardies Property and Construction Consultants. • Depreciation and capitalisation policies are considered to be reasonable and in line with the SORP.	
Pension fund valuations and liabilities	• In accordance with Financial Reporting Standards the College is required to account for retirement benefits when it is committed to giving them. This involves recognition in the Balance Sheet of the College's share of the net pension asset or liability together with a pension reserve. • Estimation of the net liability to pay pensions depends on a number of complex judgements. Actuaries are engaged to provide the College with expert advice about the assumptions to be applied.	• We have reviewed the accounting policies and confirmed they are in line with the guidance in the SORP and FRS 17. • We have reviewed the competence, capability and objectivity of Hymans Robertson who have been used as management's expert in year. • We have relied on our internal actuary team to provide assurance over the reasonableness of assumptions and judgements provided by Hymans Robertson. • We have no concerns which we wish to highlight to members.	
Holiday Pay Accrual	• As a result of the reclassification of the College to a central government body there is a requirement to include an accrual for holiday pay in line with the requirements of the Government Financial Reporting Manual (the FReM).	• We reviewed the calculation methodology for the holiday pay accrual. • We considered key assumptions used by the College and reviewed for appropriateness.	
Provisions	• Recognised when there is a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.	• The College provisions relate to future pension liabilities arising from early retirements and has been agreed to the actuarial report provided by Hymans Robertson.	
Other Accounting Policies	• We have reviewed the College's policies against the requirements of the SORP, accounting standards and the Accounts Direction.	• Disclosures were in line considered reasonable.	

Group audit summary

As group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. (set out in ISA 600)

Component	Risk identified	Response under ISA 600 and work completed	Assurance
Non- significant components			
• Carnegie Enterprises Limited • Adam Smith Enterprise and Education Foundation	• Not applicable	• We have reviewed the College consolidation workings and confirmed the appropriateness of the figures in the group accounts. • We have undertaken a desktop review of the group financial statements using analytical procedures to identify any risk areas	• Our audit work has not identified issues in respect of the non-significant components

Other areas of audit focus

Internal controls

We update our understanding of the College's operations and key financial controls systems each year and tailor our audit strategy to focus on key risk areas.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. During our interim audit, we conducted testing on the following areas:

- tuition fee revenues
- operating expenses
- employee remuneration
- IT control environment.

We did not identify any significant deficiencies or material weaknesses arising from our testing of the systems above. Overall, the results of our interim testing confirmed that there is a sound system of internal control covering key financial systems operated by the College.

Going Concern

The College has prepared their accounts on a going concern basis. We have considered this and obtained assurance over going concern through:

- review of financial factors including levels of borrowing, liabilities, arrears and operating cash flows
- review of financial forecasts and the assumptions which underpin the forecasted figures.

Related Parties

The College is required to disclose material transactions with bodies that have the potential to control or influence the College or to be controlled or influenced by the College.

In year the College disclosed related party transactions of £3.44 million. We considered the disclosures and feel that some of the bodies disclosed do not meet the definition of a related party as outlined by accounting standards. The College should review the level of disclosure and consider which related parties should be included under FRS 102.

See action plan point 2

We have used computer aided audit techniques to search for material undisclosed related party transactions. From this testing we did not find any related party balances which had not been disclosed in the figure above.

Remuneration Report

The FReM requires that all bodies under central government prepare a Remuneration Report. Each year the Cabinet Office release guidance outlining the disclosures which are required in remuneration reports such as:

- salary information for the senior management team
- pension information for the senior management team
- the median remuneration of all staff and the ratio between this and the mid-point of the highest paid director.

This is the first year the College has been required to prepare such information. We have reviewed the remuneration report and we are satisfied that the reporting requirements of the FReM and the Cabinet Office guidance have been met.

As part of our audit we identified a number of minor disclosure amendments including the disclosure of the Chair's salary information. All proposed amendments were accepted by the college and are reflected in the revised financial statements. Full details of the disclosure changes are included at **Appendix B**.

3. Governance

Governance

Corporate governance statement

Under the SORP all Colleges are required to prepare a Corporate Governance Statement (CGS) within the Report and Financial Statements. In addition from the current year, incorporated colleges are required to take account of the guidance set out in the Scottish Public Finance Manual (SPFM) for the content of the CGS. The CGS should form a key summary of the College's governance ethos and provide assurances around the achievement of the College's strategic objectives.

The CGS should be informed by work undertaken throughout the period to gain assurance about performance and risk management and provide an insight into the College's risk profile and its responses to identified and emerging risks.

The SPFM does not prescribe a format for the CGS, but sets out minimum reporting requirements for central government bodies:

- the governance framework of the College including committee structure information
- the operation of the governing board during the period
- an assessment of corporate governance with reference to generally applied best practice
- an assessment of the College's risk management arrangements
- a record of any written authorities provided to the Accountable Officer
- details of any significant lapse of data security.

We reviewed the College's draft CGS and noted that further disclosures were required around the risk management arrangements, written authorities and data security in order to be fully compliant with the FReM.

The College has updated the CGS in line with our suggestions and we have concluded that the disclosures were in line with the SPFM and our knowledge of the College.

Review of Governance and Scrutiny arrangements

From 2014-15 the College is required to comply with a Code of Good Governance for Scotland's Colleges developed by the Scottish Funding Council as a condition of the grant award.

The overarching purpose of the Code of Good Governance is to:

- lead the college and set its strategic direction and values
- ensure effective management and financial controls to support the student experience
- deliver high quality of learning and outcomes.

As part of our annual audit processes we are required to review the governance arrangements in place at the College. In 2014-15 we considered the governance arrangements against the five areas of the Code of Good Governance: leadership and strategy; quality of student experience; accountability; effectiveness; and relationships and collaboration.

The College operates a Board supported by four Committees

- Audit and Risk Committee
- Health and Safety and Human Resources Committee
- Chair's Committee
- Finance, Commercial and Estates Committee.

This was the first full year the governance structures had been in place. During the year terms of reference were agreed for each Committee. In June 2015 the Board conducted a review of the committee structure and agreed minor changes to clarify the roles of each Committee. the most significant change was to the role of the Finance, Commercial and Estates Committee and a revised Terms of Reference was agreed by the Board in September 2015.

The Board and Audit and Risk Committees both conducted a self-evaluation of governance arrangements in year with the Board focusing on overall governance structures and the Audit and Risk Committee focusing on the Code of Good Governance.

From the self evaluation there were no significant areas of non-compliance with the Code of Good Governance, however there were areas for improvement identified:

- scope to increase staff and student involvement in the recruitment, remuneration and performance monitoring of the principal
- There is currently no external facilitation of the self-evaluation processes, good practice is there should be external facilitation every three to five years.

The findings of the College are consistent with our knowledge and the College should ensure it takes action to address the areas for improvement

Risk management

The College's Corporate Governance Statement discloses its approach to risk management. The College held a Development Day for Risk Management in April 2015, which was facilitated by the Internal Auditor. As part of this the College revisited their approach to risk and agreed an output of 21 key risks which were categorised in accordance with the College's six strategic objectives:

- Estates
- Curriculum
- Design and Development
- Health and Safety
- Staff
- Finance and Commercial Income.

The Senior Management Team have refined the list to create a top 12 risks which should be the focus of the Audit and Risk Committee and presented in the Risk Register on an on-going basis. The committee members agreed the make up of the risk register in June 2015.

Work is now underway to prepare a more detailed analysis of each risk in detail. The revised risk register is a standing item at the monthly Senior Management Team meetings and the quarterly Audit and Risk Committee.

We will therefore continue to monitor progress with the implementation of the new risk register in 2015-16.

Internal Audit

The College's internal audit function is provided by BDO an external firm of accountants. Internal Audit provide an annual opinion to the Audit and Risk Committee on the assurance framework.

The internal audit reports throughout the year highlight an adequate level of compliance, however they did identify 2 areas of high risk relating to IT strategy and security. In this area only limited assurance was provided by Internal Audit. The highest priority recommendations related to removing system access rights for leavers, and improved protection of assets through the establishment of a complete asset database and encryption of staff laptops. The recommendations have now been implemented.

In 2014-15 they issued the following opinion:

"Based on our verification reviews and sample testing, risk management, control and governance arrangements (with the exception of the IT issue...) were operating with sufficient effectiveness to provide reasonable, but not absolute assurance that the related risk management, control and governance objectives were achieved in the period under review."

In 2015-16, the internal auditors will focus on areas of risk including:

- Corporate governance
- Payroll and expenses
- Commercial income
- Procurement and contract management
- Student fees

As set out in our audit plan we reviewed the work of Internal Audit to inform our audit approach. However, we did not place reliance on any specific Internal Audit work undertaken in 2014-15.

Overall Internal Audit have completed their plan for 2014-15 as agreed with the Audit Committee and have provided detailed updates to Committee

Prevention and Detection of Fraud and Irregularity

The integrity of public funds is a key concern for the organisation and for auditors. As external auditors, we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities.

The College's has a Fraud Prevention Policy and Whistleblowing Policy, which is designed to promote an anti-fraud and anti corruption culture. The College maintain a register of any allegations made under the Public Interest Disclosure Act, which is reviewed on an annual basis by the Audit and Risk Committee. It was confirmed in the current year no allegations were received in year.

Our enquiries of management and the College 's internal auditors found that there were no internal frauds during 2014-15.

Arrangements for maintaining Standards of Conduct and detection of corruption

In line with the Ethical Standards in Public Life etc (Scotland) Act 2000, the College has established a Code of Conduct for Board Members. A register of interests is available for each Board member on the College's website, and declarations of interest are made at each Council meeting.

Arm's length foundations for colleges (ALFs)

The Scottish Government budget regulations limit the Colleges ability to carry cash reserves and retain future surpluses. In order to mitigate the impact of the reclassification the Scottish Government approved the following actions prior to 1 April 2014:

- establishment of a college sector umbrella foundation
- establishment of a separate foundation for each college, as required
- transfer of colleges cash-backed reserves and on-going surpluses to the above foundations.

The College elected to set up their own ALF. A critical element in establishing the ALF was ensuring they could be shown to be independent of the College so transfers of reserves would be outside the Scottish Government budgeting boundary.

An independent Board of Trustees has been set up comprising of 5 members. Four trustees are independent of the College, with the Vice Principal Finance and Planning being the fifth trustee.

At 31 July 2015 there was £1.96 million held in the ALF. In year the College transferred an additional £0.76 million in to the ALF. There were no applications for funding to the ALF during 2014-15, however the College made an application for funding in early 2015-16 for a project to Build a campus at Levenmouth. A presentation was made to the ALF trustees on 2 September 2015 to request £0.30 million. This request was approved.

A key risk is that over time it becomes apparent that the ALF is not independent of the College, which results in consolidation of the ALF financial statements into the College group. We have concluded in 2014-15 that the ALF is sufficiently independent from the College and would not require consolidation under accounting standards. However, the College should consider how it can demonstrate that the ALF is independent from the College.

Refer to action plan point 3

4. Best Value, Use of Resources and Performance

Performance

Development of the Strategic Plan

The College's Strategic Plan was approved in October 2014 and covers the period from 2014 to 2017. The plan outlined the overall ambition for Fife College as *'Learners in Fife will reach their full educational and employment potential and contribute to sustainable communities and a thriving economy'*.

The plan is underpinned by five outcomes which have been agreed with the Scottish Funding Council and therefore contribute to the Scottish Government's National Performance Framework and strategy for creating a smarter Scotland.

- To deliver an efficient regional structure to meet the needs of the Region
- To contribute to meeting the national guarantee for young people, meeting the demands of the region nation
- To ensure students are qualified to progress through the system in both an efficient and flexible manner
- To ensure students are qualified and prepared for work and to improve and adapt the skills of the region's workforce
- To secure, well managed and financially and environmentally sustainable colleges.

To date the Board have not had regular oversight of the performance against the strategic plan. We recommend the college considers how assurance over progress against strategic objectives is reported to the Board members.

See action plan point 4

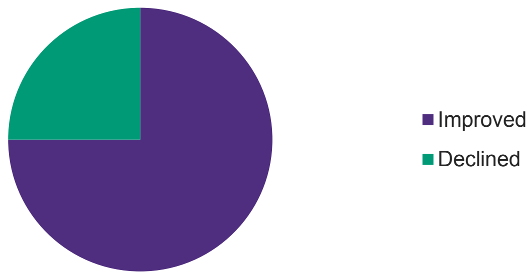
Performance reporting

The College use a range of targets and key performance indicators (KPIs) to monitor performance. Performance is monitored by the management team throughout the year.

The Annual Report summarises performance against the College's main KPIs for the year.

The KPIs selected were designed to be those appropriate for the College. As Figure 5 highlights, the College improved or maintained performance for 75% of the indicators.

Figure 2: Movement in performance indicators



Source: Fife College Annual Report and Accounts 2014-15

The areas where the performance has declined is as follows:

- non Scottish Funding Council Income as a percentage of total income has reduced by 2.3% to 26.3%
- ratio of days cash to total expenditure has reduced from 25.2 to 22.6
- the WSUMs per staff FTE has reduced from 529 to 287. However, we note this is due to the difference in period length from 8 months in 2013-14 to 16 months in 2014-15.

We have noted that commercial income has decreased as a percentage of the total income over the past two years. The College are reliant on grant-in aid income from the Scottish Funding Council to support expenditure. There is a risk that if this level drops significantly the College will be unable to maintain current services. The College are in regular contact with the Scottish Funding Council and consider projects based on indicated funding levels and the overall strategic aims. There is an opportunity for the College to consider financial planning over the medium to long term (3- 5 years) which would comply with best practice within the sector.

See action plan point 5

Scotland's Colleges 2015

The Auditor General published a report on the college sector in April 2015. This report focused on the reform in the College sector following the regionalisation process and the financial standing of the college sector.

Key messages from the report are:

- Scotland's colleges have faced significant changes over the past few years, which have had implications for funding, delivery and how colleges are run, managed and scrutinised. It is too early to fully assess how these will affect how colleges perform and the quality of learning, as many of the changes are still taking place.
- The Scottish Government's reform programme has led to college mergers, and the number of incorporated colleges reduced from 37 in 2011-12 to 20 in 2014-15. Planning for mergers was generally good and all the merged colleges were established on time. The College provided guidance, support and challenge.
- The Scottish Government and the Scottish Funding Council expect the reform programme to deliver a number of high level benefits, including reduced duplication, improved engagement with employers, better outcomes for students and financial savings of around £50 million each year from 2015-16. A large proportion of the savings has come from reductions in staff, with the biggest reduction being teaching staff costs. However, it is unclear what savings have been achieved in addition to reduced staff costs.
- Colleges continued to meet targets for learning, providing around 76 million hours of learning in 2013-14. Regular student surveys and merger evaluation feedback from the College indicate that changes to date have not adversely affected students.
- Recent changes have made it more challenging for colleges to plan and forecast their longer-term financial position. However colleges need to develop longer term financial planning to ensure they consider and plan for the future needs of their region.

As part of this report Audit Scotland identified a number of recommendations for the college sector:

- colleges should continue to review the workforce plans to identify any gaps in the skills, knowledge and resources required to deliver high quality learning
- colleges should base their senior staff severance decisions on full business cases and clearly record how they have considered and taken decisions on those proposals
- colleges should monitor student participation and satisfaction to help them plan the future learning provision
- colleges should complete any remaining merger activities
- colleges should work towards developing ten year financial plans.

The College considered the Audit Scotland report at the Audit and Risk Committee. It is important the College takes action to meet the recommendations above.

See action plan point 6

Use of resources

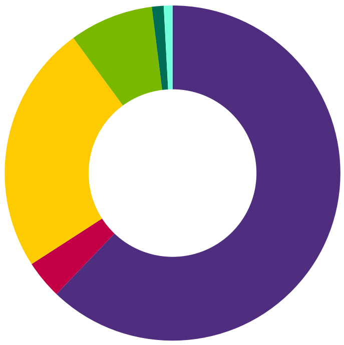
Purpose

The main purpose of the College is to provide of teaching and learning facilities within the Fife region. During 2014-15, the College incurred expenditure of £67.05 million to deliver services.

Expenditure

The College reported expenditure of £67.05 million in 2014-15. Significant movement in the balances between years was expected due to the change in year end result in a period of 16 months being reported in 2014-15 compared to 8 months in 2013-14.

Figure 5: Staff costs continues to be the highest area of expenditure in 2014-15



Source: Fife College Annual Report and Accounts 2014-15

It is clear that staff costs continues to be a key area of expenditure for the College. However, the College are taking action to create efficiencies through the voluntary severance scheme and restructuring departments post merger.

From the 1 April 2014, all colleges in Scotland came under the accounting boundary of central government and as such will have to work within the budgeting guidelines issued by the Treasury. A key element of the guidelines is that all bodies will be required to meet the expenditure limit for the year. In 2014-15 the College reported an operating surplus and therefore operating within the budgeting requirements of the FReM.

Financial Position

The College's statement of financial position reflects a £1.29 million reduction in reserves during 2014-15 from £48.27 million to £46.98 million.

Table 4: Group Balance Sheet

	Period ended 31 July 2015 (£m)	Period ended 31 March 2014 (£m)
Fixed Assets	73.70	78.32
Current assets	5.92	6.90
Current liabilities	(6.20)	(10.89)
Long term liabilities (including pensions)	(26.44)	(26.06)
Total net assets	**46.98**	**48.27**

The movement in fixed assets relates to the movement on revaluation.

Current assets and liabilities have fallen in year mainly due to the change in the year end. In the prior year the year end was March which was part way through the academic year. This resulted in an increase in debtors for students who had paid tuition fees in advance and a decrease in current liabilities which in the prior year included amounts due to the Scottish Funding Council for amounts drawn down but not yet claimed and a higher holiday pay accrual due to timing of the annual leave year. As the year end had reverted to 31 July which is at the close of the academic year a reduction in debtors and creditors was expected.

ONS reclassification

The Office of National Statistics (ONS) reclassification of Further Education Colleges to central government bodies came into force from 1 April 2014. This meant that in 2014-15 there was a requirement for the financial statements to comply with the Government Financial Reporting Manual (FReM).

This has resulted in a significant number of accounting implications and additional reporting requirements both in the financial statements as well as an increased cycle of reporting to Scottish Funding Council.

The College has managed to balance the increased cycle of reporting well, as well as successfully implementing the change of financial year end from March back to the end of the academic year end in July.

Funding methodology – 2015-2016

The basis for funding is changing in 2015-2016. WSUM targets are replaced by Credit targets by Scottish Funding Council. It is aimed that the Credit measure will more closely match student activity levels and timetabled learning.

Credit targets will be lower than WSUMS as the full time tariffs have been removed to allow the same pro-rata price to be paid for a full or part-time student.

Scottish Funding Council will pay more for each credit so that the changes made are cost neutral.

IFRS Conversion – 2015-2016

Full International Financial Reporting Standards (IFRS) conversion is applicable from 2015-16 with the issue of the new Statement of recommended practice: Accounting for further and higher education based on FRS 102.

This will also require comparative figures to be prepared for the opening balance at 1 April 2014 and 31 July 2015.

The College continues to consider the implications of this decision and how this can be managed to deliver the changes.

The College has started work on IFRS conversion and has a timetable and plan of key issues for conversion. A number of changes to the presentation of the financial statements will be required.

Key changes include:

- the use of the performance model for accounting for non government capital grants
- assessment of service concessions to on-balance sheet.

Audit Scotland data return

We are required to complete a data return to inform the 2016 Scotland's Colleges report. The overarching theme is financial capacity. This covers the areas of:

- financial planning and performance,
- severance
- governance,
- transparency.

This work is on-going on the data return will be agreed with management and submitted to Audit Scotland at the same time as the audited financial statements.

Appendices

Contents | **Page**

Appendix A- Unadjusted misstatements

We are required to report to those charged with Governance any identified adjustments, over and above £0.25 million which we have reported to Officers but have not subsequently been changed in the final version of the Financial Statements. We have one adjustment which is outlined below.

	Detail	Comprehensive income and expenditure account £	Balance sheet £	Reason for not adjusting
1	Dr Prior Year Operating Expenses- Restructuring Costs	£96,166		• The amounts are below performance materiality
	Cr Current year Operating Expenses- Restructuring costs	(£96,166)		• The item has no on-going impact on the financial statements.
	A charge was made in the current year for restructuring costs which were approved in March 2014 and therefore should have been accrued in 2013-14			

Appendix B- Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value of change £'000	Proposed new balance £'000	Account balance	Impact on the financial statements
1	Disclosure	n/a	n/a	10,888	The holiday pay accrual is a prior period adjustment and therefore should have an additional note to the statements outlining why the change was made and also the value and impact on prior years. **This has been adjusted in the revised financial statements.**
2	Disclosure	n/a	n/a	n/a	According to the FReM the senior management team includes Board members, therefore the remuneration report should include remuneration of the Chair and other members of the Board. Where Board members are not remunerated this should be disclosed for completeness. **This has been adjusted in the revised financial statements.**
3	Disclosure	n/a	n/a	n/a	As the College prepares group accounts it should be made clear through out the financial statements which element relate to group balances and which elements relate to the College as a single entity. All notes should be split to show the group balance and the college balance. **The college have updated the accounts to note that where there is no material difference only the group figures are shown and updated all notes where there is a material difference to show both the group and single entity figures.**

Appendix C- Action Plan

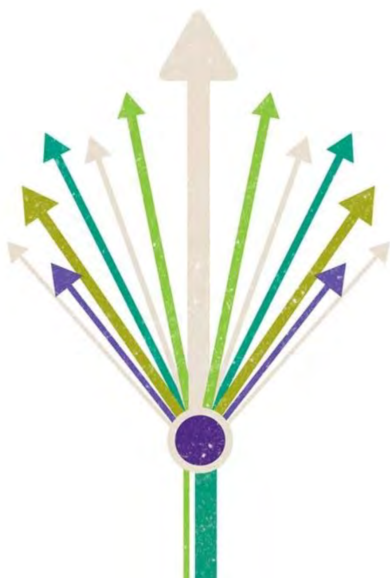
The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Issue and Risk	Priority	Recommendation
1.	The Operating and Financial Review currently complies with the Scottish Funding Council Accounts Direction but there is opportunity to improve the report in line with the Accounting Standards Board best practice guide. **Risk** **There is a risk that the financial statements do not focus on key areas of interest for the user.**	Low	The finance team should consider whether they wish to improve the content of the annual report to improve the clarity and relevance to the end user. **Management response** This will be reviewed as part of the implementation of FRS 102 for 15/16 financial year end.
2.	The College disclosed related parties transactions of £3.44 million in year. Having considered the disclosures we feel that not all of the bodies meet the definition of a related party. **Risk** **There is a risk that there is incorrect disclosure of related party transactions.**	Medium	The College should review their related parties and establish whether they meet the definition of a related party as outlined in accounting standards **Management response** As discussed with the Auditors the College will review this process for 15/16 financial year end.
3.	The College has transferred £1.96 million into an ALF. **Risk** **There is a risk that over time the ALF is unable to demonstrate that it is sufficiently independent from the College which results in the ALF being consolidated in the College's financial statements.**	Medium	The College should consider how it can continue to demonstrate that the ALF is an independent body. **Management response** The ALF has been set up following sectoral guidelines. 4 of the 5 ALF trustees are independent of the College and Turcan Connell act as Company Secretary.
4.	To date the Board have not had regular oversight of the performance against the strategic plan. **Risk** **There is a risk that the Board do not have sufficient knowledge to challenge and scrutinise the College's performance against strategic objectives.**	Medium	The College should aim to make performance reporting against the strategic plan a regular item on the Board agenda. **Management response** This will be considered more fully when responding to an internal audit report on Business Performance Management.
5.	The College receive a significant proportion of their funding from the Scottish Funding Council. The percentage of funding from other sources has reduced over the past 2 years. **Risk** **There is a risk that is this level drops significantly the College will be unable to maintain current service levels.**	Medium	The College should consider their approach to longer term financial planning to identify if there is scope for improvement in line with best practice. **Management response** The College has a commercial strategy in place to further generate funding from other sources. Part of this strategy this year has been to invest in the appropriate structure and resource to drive this forward. This structure is now in place and will focus on income generation. The funding provided by SFC for future periods is uncertain and the College currently have no indications of funding for 16/17 and beyond. Therefore, planning is extremely difficult and subjective.
6.	Audit Scotland made a number of recommendations in their Scotland's Colleges 2015 report on a number of key areas including delivering benefits from mergers, outcome agreements and governance over severance arrangements. **Risk** **There is a risk the recommendations from Audit Scotland are not implemented.**	Medium	The College should ensure it considers the Audit Scotland recommendations and develops an action plan to address all the identified risks. **Management response** Having reviewed the recommendations, Fife College is complying as appropriate. However, 10 year financial planning projections are not currently possible given uncertainties around any future SFC funding.

Appendix D-Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1	Written representations	• A letter of representation has been requested from the College • In particular, representations will be requested from management in respect of: – Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable – Responsibility for the design and implementation of internal control to prevent and detect error and fraud – Related party relationships and transactions being appropriately accounted for and disclosed in accordance with the requirements of the Government Financial Reporting Manual and the Scottish Public Finance Manual – All events subsequent to the date of the financial statements and for which the Government Financial Reporting Manual and International Financial Reporting Standards requires adjustment or disclosure having been adjusted or disclosed
2	Disclosures	• Our audit work identified no material omissions in the financial statements
3	Matters in relation to fraud	• We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
4	Matters in relation to laws and regulations	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations
5	Matters in relation to related parties	• We are not aware of any related party transactions which have not been disclosed
6	Going Concern	• We have considered managements assessment of going concern. Our work has identified no significant issues in relation to going concern



Appendix E- Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
College Audit	34,000	34,000
Carnegie Enterprise Limited Audit	3,675	3,675
Total audit fees	**37,675**	**37,675**

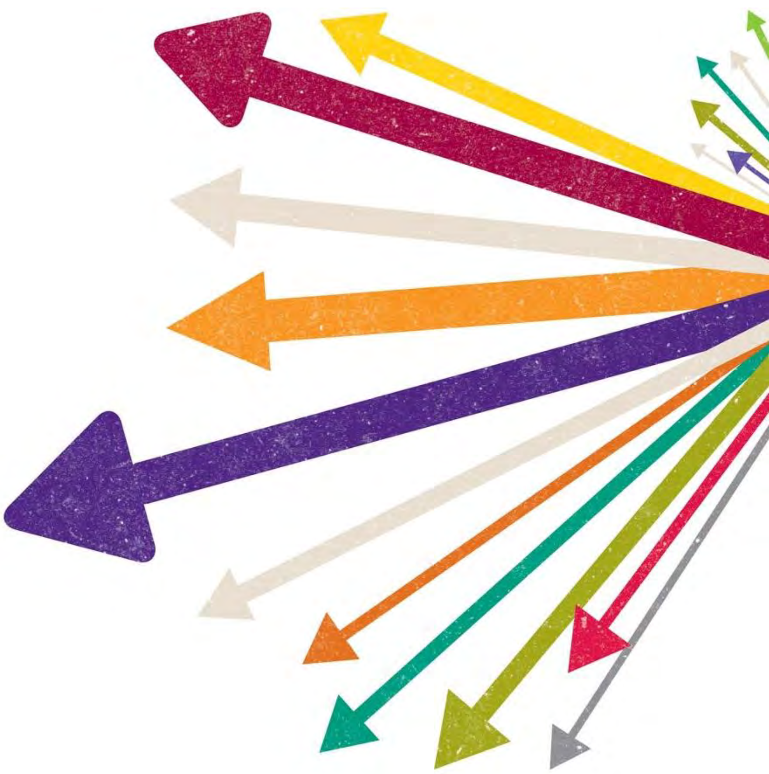
Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.



Appendix F- Independent Auditors Report

Independent auditor's report to the members of the Board of Management of Fife College, the Auditor General for Scotland and the Scottish Parliament

We have audited the financial statements of Fife College and its group for the period ended 31 July 2015 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Group Income and Expenditure Account, the Statement of Group Historical Cost Surpluses and Deficits, the Statement of Group Total Recognised Gains and Losses, the Balance Sheets, and the Group Cash Flow Statement] and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Board of Management and auditor

As explained more fully in the Statement of Board of Governor's Responsibilities the Board of Management is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Generic scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the college and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Management; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements, irregularities, or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the affairs of the college and its group as at 31 July 2015 and of their surplus for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Opinion on other prescribed matters

In our opinion:

the part of the Remuneration Report to be audited has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers; and

the information given in the Operating and Financial Review for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

proper accounting records have not been kept; or

the financial statements are not in agreement with the accounting records; or

we have not received all the information and explanations we require for our audit; or

the corporate governance statement 2014-15 does not comply with Scottish Funding Council requirements.

We have nothing to report in respect of these matters.

Jackie Bellard (for and on behalf of Grant Thornton UK LLP)

7 Exchange Crescent

Edinburgh

EH3 8AN

16 December 2015

Jackie Bellard is eligible to act as an auditor in terms of section 21 of the Public Finance and Accountability (Scotland) Act 2000.

Appendix G- Letter of Representation

Grant Thornton UK LLP

7 Exchange Crescent

Edinburgh

EH3 8AN

16 December 2015

Dear Sirs

Fife College
Financial Statements for the Period Ended 31 July 2015

This representation letter is provided in connection with the audit of the financial statements of Fife College for the period ended 31 July 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice ('UK GAAP').

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities, as set out in the Further and Higher Education (Scotland) Act 2005 for the preparation of the financial statements in accordance with the Public Finance and Accountability (Scotland) Act 2000, 2007 Statement of Recommended Practice – Accounting for Further and Higher Education ('SORP'), the FReM and International Financial Reporting Standards. In particular the financial statements give a true and fair view of the College's state of affairs in accordance therewith.

ii. We are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions of the College conform to the authorities that govern them. In addition, we are responsible for ensuring that funds from the Scottish Funding Council are used only in accordance with the Financial Memorandum with the Scottish Funding Council and any other conditions that the Scottish Funding Council may prescribe from time to time.

iii. The College has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value and underpinning pension figures of senior employees are reasonable.

vi. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of UK GAAP, the SORP and the Accounts Direction for 2014 to 2015 Financial statements issued by the Scottish Funding Council.

vii. All events subsequent to the date of the financial statements and for which UK GAAP and the SORP and any subsequent amendments or variations to this statement require adjustment or disclosure have been adjusted or disclosed.

viii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of UK GAAP.

ix. We have not adjusted the misstatements brought to our attention on the audit differences and adjustments summary, outlined in the annual report, as they are immaterial to the results of the College and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

x. We confirm that donations made to the arm's length foundational trust were completed prior to the period end date of 31 March 2015. We further confirm the Arm's Length Foundation is independent of the College and is therefore not required to be consolidated into the College's financial statements.

Information Provided

xi. We have provided you with:

   a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

   b. additional information that you have requested from us for the purpose of your audit; and

   c. unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

xii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xiii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud or error.

xiv. We confirm that we have provided to you all information relating to our contractual arrangements with the Scottish Funding Council and that we currently know of nothing which could have an impact upon these arrangements and as far as we are aware, at the current time, there is no adjustment to the Scottish Funding Council funds to be provided for in the financial statements.

xv. We have disclosed to you our knowledge of fraud or suspected fraud that we are aware of and that affects the entity and involves:

   a. management;

   b. employees who have significant roles in internal control; or

   c. others where the fraud could have a material effect on the financial statements.

xvi. We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

xvii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xviii. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

xix. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing financial statements.

Yours faithfully

Signed on behalf of the Board of Fife College